FINDING THE NEEDLE IN THE HAYSTACK FIRST STEPS INIDENTIFYING THE RIGHT CTRM/CM

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Commodity **Tech**nology **Advisory**

CTRM Market Research, Analysis and Insights

INTRODUCTION

According to leading market analysts, Commodity Technology Advisory (ComTech), there are more than one hundred companies that sell software to address the commodity trading and risk management (CTRM) and/or commodity management (CM) value chain. These solutions include legacy monolithic software products capable of managing multiple commodities and markets. They offer functionality that spans from production to trading and marketing settlements.

Other CTRM/CM solutions are more focused on a particular niche of capability, market (such as country specific solutions for trading power or natural gas), commodity (like dairy, proteins, nuts or precious metals), or solution area (products focused solely on risk management, for example).

Unfortunately, if your company is seeking to replace or upgrade their current CTRM/CM capabilities, identifying potential vendors that can meet your specific needs from an ocean of CTRM/CM solutions can be difficult; and, if not done correctly, can introduce delays and costs into the selection process and result in sub-optimal outcomes post-implementation.

A number of factors that go well beyond traditional "feature/functionality" compound the difficulty of finding the "right" vendor/product. Considerations such as the qualities of the vendors, including their financial stability,

market reputation and track-record of expertise and successful implementations in specific markets, industries and commodities need to be taken into account. Other factors that may be important to consider include the technologies used in the software (i.e. Oracle vs MS SQL database); integration strategies, tools and technologies; or delivery method (locally installed vs hosted in the cloud vs. multi-tenanted web solution).

Though there are a number of methodologies that one can apply to identifying THE singular best solution for your needs, it is first necessary to sieve the 100 plus vendors down to those that are most likely to address your requirements, while ensuring you have cast as wide a net as possible to initially consider all possible candidate systems. Once you have limited your potential choices to only those that have a high likelihood of meeting your requirements (which may ultimately be more than a half dozen

vendors), you can begin a more formalized and methodical selection process. This usually includes the issuance of RFIs/ RFPs, product demonstrations, pilot projects with preferred vendors, etc.

Unfortunately, this first step in the process, identifying the "high potential" products/ vendors from the universe of more than 100 can be more difficult that many imagine. Reducing the number of prospective solutions/vendors will require a full inventory of the capabilities and characteristics your company needs along with an understanding of your budget limitations, technology requirements, and future growth plans.

As you begin the process of selecting a new CTRM/CM system (or upgrading your current capabilities to address functional gaps or new commodities), There are a number of areas that should be considered and examined prior to beginning a formal selection process.

CM OR CTRM?

In the last several years, many vendors have begun labeling their CTRM software products as Commodity Management (or CM) solutions, creating some confusion in the market.

Though the definition of what constitutes commodity management capabilities is somewhat nebulous, companies operating in the agricultural and softs markets need to be particularly vigilant when trying to identify a shortlist of potential vendors. Technology buyers in these markets seeking software that can manage the breadth of their agricultural and softs commodity activities such as procurement, producer relations/communications, processing/ transformation, recipe management, selling and pricing/fixation are unlikely to find those needs met in many of the systems that some vendors are now calling "commodity management systems."

If your company is seeking a true CM solution, it is important to identify the capabilities you require that span beyond those addressed by traditional CTRM solutions. Once you have established if your needs are truly CM as opposed to CTRM, your choices of potential vendors will be reduced substantially.

REPLACING VENDOR SUPPLIED SYSTEM...WHY?

There are any number of reasons for a company to seek a new CTRM or CM system and those reasons should form the first gate as you begin your search. Is it lacking functionality (i.e limited assets classes); is it poorly supported by the vendor; or is becoming too costly to maintain? These reasons should inform and prioritize the search for a replacement vendor and solution.

For example, if your current vendor has repeatedly failed to provide adequate support for their product (delayed bug fixes, failed to provide functionality necessary to keep up with industry changes, was acquired by another vendor and that acquiring vendor hasn't follow through on previous commitments or is demanding higher fees, etc.), looking for vendor with a good reputation and track record of successful implementations in your market(s) or industry should be key differentiator in your search.

If your CTRM system has simply not grown with your company's needs, but you are otherwise satisfied with the support being provided, there may be alternatives to a costly full system replacement. Newer modular based solutions are available (such as Eka's Platform[1]) that might be able to address the functional gaps that have emerged between your company's needs and your CTRM/CM architecture. These platforms can integrate with your existing technologies and, via apps or modules, enhance the capabilities of your critical trading and CM solutions. Additionally, as your company continues to grow, building or acquiring new assets or portfolios, you can continue to grow your CTRM/CM capabilities without a wholesale replacement of systems.

KNOW YOUR TECHNOLOGY REQUIREMENTS

Have a clear understanding of any IT mandates that your company may have regarding technology. Is your company an "Oracle only" shop? Is there a requirement that newly purchased software must be delivered via the web/cloud?

If so, these mandates should be a first cut requirement, meaning that you can quickly reduce your choices to only those systems that can meet those requirements. Fortunately, as web-delivered solutions have become

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[1.] https://eka1.com/

more common and as more companies have shown a willingness to accept these solutions, it is increasingly rare that IT requirements will prevent you from acquiring the critical software your company needs.

WHAT COMMODITIES?

How many and what types of commodities do you need to manage with the new system? Some companies may only transact in a single commodity while others may trade multiple energy commodities along with metals or agricultural products.

The ability to handle the breadth of your portfolio, especially if that portfolio is comprised of disparate commodities, may be a differentiating capability. Only certains solutions will allow you to manage the full breadth of commodities in a single solution.

Unfortunately, even within commodity classes, for instance "softs," there are a number of very specific commodities that have unique qualities and may require a solution that has been purpose-built for that commodity, or can be configured to capture and value those unique qualities. Cotton, for example, is a globally traded soft commodity; however, with more than two dozen distinct quality characteristics that impact pricing of a bale of cotton, there are few systems that have the flexibility to capture, track and value cotton transactions.

WHAT MARKETS?

Your choices of potential solutions will depend on which market or markets you operate in. For example, power trading capabilities are very specific to the markets for which they have been designed – i.e. a solution for the German power markets is very unlikely to work for the any of the regional ISO's in the US.

The same holds true for natural gas markets – each geographic region/market has unique requirements (operational processes, units of measure, etc.) that may limit the utility of a particular system in managing natural gas transactions outside of their core market area.

In terms of breadth of market coverage, are you operating across multiple countries, requiring currency conversions, unit conversions or multiple languages? If so, given the exposure to multiple regulatory regeims, your new system may need to address specific reporting or documentation requirements within those countries.

If you have subsidiary companies operating in different countries, your new system may need to consolidate positions and financial information from each for risk management and reporting requirements, including the need to manage fx exposures.

WHAT ARE YOUR CRITICAL FUNCTIONAL REQUIREMENTS?

Determine the critical and differentiating capabilities that your company requires in a new CTRM/CM solution. What does your system do well? What does it not do well? Are there functions or segments of your business that are being managed outside your current system that, from a process and reporting perspective, would be better managed within your CTRM/CM solution? Keep in mind that just because you do not do it now in your current system does not mean there is not a system available in the market that can address those previously unmet needs and provide better visibility into your commercial operations.

As you go through an inventory of critical requirements, you may discover though the current system is not working well for number of your business units/groups, it could potentially be the best solution for others. If this is the case, it may be possible to separate these groups or functions from your current CTRM system, providing them with other systems, tools or modules from other vendors that can be integrated into your existing infrastructure, addressing the issue at a much lower cost than a full system replacement effort (see modular approaches on the following pages).

An area of functionality that is often overlooked during the initial stages of the selection process is analytics. Historically, CTRM/CM solutions have been somewhat lacking in providing analytics and other decision support tools, and users have often been forced to look elsewhere for such capabilities. However, with the maturation of technology in the commodities markets, a number of vendors are providing improved analytics capabilities and/or have established broad and stable API's that provide data-rich integration with third party analytics tools (such as PowerBI) or to data lakes for use in reporting and analysis.

WHAT SYSTEMS DO YOU NEED TO INTEGRATE WITH?

As one takes stock of their inventory of requirements for a new CTRM/CM, identifying the depths of integration with other systems (including those along your supply chains) is a critical activity. What are the types and tenor of data that needs to be integrated with the CTRM system?

Often, buyers assume that their preferred system will have some type of pre-built integration to many of the other systems common to the markets in which they operate – ERP solutions, market price feeds, production reporting systems, analytic tools, etc. Unfortunately, outside of the most common market price feeds and a few CTRM/CM products that have prebuilt connection for analytics packages such as Power BI, few if any systems will come with prebuilt integration for ERP solutions (such as SAP), or to specialized systems such as production reporting, inventory management, logistics etc. Unfortunately, integrating to an ERP system can be extremely complex depending on the nature of the information that needs to pass from the CTRM/CM system or from the ERP solution to the CTRM system (for syncing master data between the systems such as counterparty information, contracts, etc.).

The depth and complexity of integration points are usually not fully appreciated when buyers begin their search for a new system; and the development of interfaces to and from complex systems can create significant project delays if not fully understood prior to committing to any CTRM/CM system.

KNOW YOUR OPTIONS – CLOUD VS. TRADITIONAL ON-PREMISE

Is a web-delivered solution the right approach? For most organizations, it probably is; however, as previously mentioned, your organization may have corporate mandates regarding acceptable technologies, including standards for web delivery mechanisms, databases, integration tools, etc. that may dictate the system or systems they would view as acceptable.

Despite the growing acceptance of web-delivered solutions in almost all markets, some companies are still reluctant to allow proprietary data and information to pass outside their firewalls; particularly those in industries that have assets and systems that might be at high risk for cyber-attacks such as power generation

and transmission, chemical manufacturing, and oil & gas infrastructure. In these cases, it might be necessary to install the CTRM system on local servers.

Assuming a web-delivered solution is an option for your company, the options will vary both in terms of how they are managed from the vendor side and their breadth of capabilities. Multi-tenanted cloud solutions may be an option to consider. Unfortunately, many of these solutions are somewhat limited in their scope as they tend to focus on specific markets and on customers that have only those requirements most common to those markets. Other systems, such as those that are hosted in the cloud, may not be architected to take full advantage of the primary benefit of that environment – being able to dynamically scale the number of servers they can access as processing needs change throughout the day or month. Many of the legacy monolithic solutions (all of which started as client-server applications and have transitioned to the web) will have this scaling limitation in a cloud environment and the cost to reserve adequate (though at times unnecessary) processing bandwidth in the cloud may make these systems a less appealing option.

The Covid pandemic has highlighted the need for web-based remote access to critical business systems and in particular CM/CTRM systems, regardless of the cloud approach you might take (hosted or multi-tenanted). Providing access to the system via web browser helps to eliminate risks associated with corporate VPN systems, which (as shown by the experiences of a few very large companies early in the pandemic lockdowns) may be less reliable for resources working from home or in remote locations. In fact, when challenged by workplace disruptions and a more mobile workforce, there were a number of large organization that were unable to provide full VPN-based access to their personnel, resulting in trading losses and a delayed accounting close.

The pandemic has also highlighted an additional advantage of web-based solutions – the ability to remotely implement these solutions, significantly reducing costs and potentially accelerating the implementation process.

TRADITIONAL MONOLITHIC SOLUTIONS VS MODULAR OR PLATFORM SYSTEMS

The functional depth and breadth of the traditional monolithic solutions often appeal to very large commodity trading companies with complex physical logistics, and a large internal staff of technical support personnel to perform daily maintenance tasks, apply and test vendor supplied patches, and maintain/adjust interfaces to other systems as the various end-point system are upgraded.

However, as these legacy systems continue to age and become even more broad, the effort and costs of maintaining and upgrading them continually rises and their appeal to even the largest of companies is waning.

A web-based modular or platform solution can provide similar capabilities without the burden of unnecessary functionality (and code) which has been embedded in the older monolithic solutions to make them appealing to a as many markets as possible. These newer solutions can provide higher levels of scalability and agility, usually at a much lower initial cost.

Though some of these modular and platform solutions are somewhat limited in the number of commodities, markets or industries they currently support, a few, such as the Eka Platform have been very successful in servicing a wide variety of commodities and markets, and have been able to leverage that experience into creating and deploying new modules that can be added as their clients' needs change. This ability to scale allows technology buyers to create a solution that is right-sized to their needs, with the commodity, market and functional coverage they need today. It also empowers you to quickly add more capabilities as needs arise, improving agility and reducing costs for licensing, implementation and support.

SUMMARY

With more than 100 software vendors and systems claiming to address at least part of the CTRM/CM value chain, it is difficult to cut through many of the marketing claims and identify those vendors and products that have the highest probability of meeting any individual business's needs. Creating a full inventory of the capabilities and characteristics of the system/vendor that will meet your requirements is the first step in the process. As previously noted these will include:

- Know your required solution type – Is it **CTRM** or is it **CM**?
- Understand the your **reasons for replacing** an exisiting vendor supported system and ensure that the vendor you select for the replacement system can reliably address those shortcomings.
- Know your **technology requirements** going into to process – this will allow quick elimination of any that don't meet those requirements.
- Determine what **commodities** will you be capturing and managing in the system – consider what other commodities your firm might manage in the next 5 years as well to help future proof your selection.
- Find vendors that have specific and deep experience in the **markets** in which you operate.
- Identify your **critical and differentiating functional requirements**.
- Identify and map your **integration needs** and find a vendor/product that can support those needs with the latest technology tools and strategies.
- **Cloud or traditional on-premises** – which is right for you?

However, measuring these capabilities and characteristics against the available pool of vendors requires a complete view of all those potential vendors. CTRM/CM consulting firms can also provide assistance in identifying potential vendors. However, as most of these firms' experiences are limited to specific markets and primarily projects involving the largest vendors, they may not always be aware the capabilities of many of the smaller and mid-tier products.

Fortunately, there are resources available to assist as you begin the process. ComTech's CTRMCenter website (www.ctrmcenter.com) offers an online directory of virtually all companies that market to the CTRM/CM space and provides the ability to drill down by commodity class or broad functional capabilities. ComTech also publishes the CTRM Sourcebook which provides a more detailed view of the market and industry reach and functional capabilities of most of the larger CTRM vendors. You should also talk with your peers in the market to determine which system or systems they use and their experiences with them. Trade shows and conferences can also be a valuable source of information and often provide an opportunity to see many of these systems first-hand.

ABOUT EKA

Are your ready to find the best CTRM/CM solution for your organization? An extensible cloud platform can help you create an agile, digital business – automating processes and delivering the depth of insight you need to make better decisions for trading and risk, supply chain and financial management.

Eka empowers you to prioritize and scale a solution that meets your unique business. Customize and develop the best-fit solution for your:

- Scope of functionality: Unlock the value of your data from sourcing to trading and risk, supply chain and financial management.
- Commodity and market versatility: Manage a broad set of asset classes across geographies by selecting the best solutions from our library of 50+ applications. Our solutions serve the entire trading value chain across agriculture, energy, metals and mining and manufacturing markets.
- Functional requirements: Perform on-demand analysis using trusted data with custom dashboards, drill downs, visualizations, and embedded machine learning algorithms for anomaly detection.
- System integrations: 20+ built-in connectors and open APIs enable you to easily bring exter-

nal data from ERP systems and other sources including market, weather, compliance, and your database.

Eka's Cloud Platform provides advanced analytics, one source of data and an automation engine, providing maximum flexibility and investment protection as business needs and market requirements change. With our fully mobile platform enables insight and analytics on the go, Eka is committed to ensuring our 100+ clients can work from anywhere and collaborate across ecosystems within a secure and trusted environment.

If you're ready to find a solution that can address your specific business requirements, learn more about at www.eka1.com

ABOUT

Commodity **Tech**nology **Advisory** **LLC**

Commodity Technology Advisory is the leading analyst organization covering the ETRM and CTRM markets. We provide the invaluable insights into the issues and trends affecting the users and providers of the technologies that are crucial for success in the constantly evolving global commodities markets.

Patrick Reames and Gary Vasey head our team, whose combined 60-plus years in the energy and commodities markets, provides depth of understanding of the market and its issues that is unmatched and unrivaled by any analyst group.

For more information, please visit:
www.comtechadvisory.com

ComTech Advisory also hosts the CTRMCenter, your online portal with news and views about commodity markets and technology as well as a comprehensive online directory of software and services providers.
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